TO: Honorable Mayor and Members of the City Council

ATTENTION: Michael J. Egan, City Manager

FROM: Leo L. Mingle, Jr., Assistant City Manager

SUBJECT: Study Session Regarding a Potential Increase to the Water Rates Charged Customers of the City of Bellflower’s Municipal Water System and Other Changes to the Water System’s Rules

DATE: May 15, 2007

RECOMMENDATION

Provide direction to the City Manager concerning a potential increase to the water rates charged customers of the City’s Municipal Water System, as well as other potential changes to the rules and regulations governing that Water System.

FISCAL IMPACT

- **Municipal Water System** – the proposed Rate increase will generate an estimated additional $610,419 in revenue for the Municipal Water System.

- **Customer** – the average residential customer’s water bill is $80 bimonthly, the proposed rate increase is approximately $56 bimonthly or $0.88 per day.

1. **Background.** In January 2007, the City acquired the assets of the Peerless Water Company for the sum of $5.8 million.

The City took this action to prevent the sale of the water system to an out-of-state commercial operator, and with the full knowledge that the water system was in very poor condition, having had very little in the way of capital reinvestment during the last 30 some years, and also knowing of numerous and longstanding customer complaints that the water being delivered was of poor quality (bad color, odor and taste) and at low pressure.

The City of Bellflower Municipal Water System was established within the City organization to manage these assets. Recognizing the special knowledge, skill and experience required to operate a water system, the City entered into an Operating Agreement (Agreement) with Bellflower-Somerset Mutual Water Company (Operator) for the day-to-day operation of the system on behalf of the City.
To acquire this system, rebuild and expand its infrastructure, improve water quality and restore customer confidence, the City Council recognized that we were making a long term commitment, including the commitment of large sums of money. As a matter of policy, and although we aggressively pursue federal and state grants and other funding sources (a total of more than $1.2 million so far), the very substantial costs involved exceed our limited resources. The Council previously decided that the financial burden cannot and should not be borne by the City’s taxpayers at-large, but must ultimately rest on the customers served by the water system.

In addition to increasing water rates, the proposed resolution consolidates the Rules adopted in two previous separate resolutions.

2. DHS Engineering Report. On March 21, 2007, the California Department of Health Services (DHS) made their first site visit and inspection of the water system since 1999. The attached draft engineering report (Attachment 2) identifies a number of discrepancies, including:

   a. The water pressure in portions of the system must be limited due to the deteriorated condition of the piping (paragraph 2.4.1).
   b. Wells 2, 3 and 8 exceed the secondary MCL (Maximum Contaminant Level) for manganese (paragraph 2.6.1.2).
   c. Well 8 exceeds the secondary MCL for iron (paragraph 2.6.1.2).
   d. The System Operations Plan does not address sequestering treatment of manganese and iron (paragraph 2.5.2).
   e. Wells 2, 3 and 8 require the City to initiate proper testing of manganese and iron (paragraph 2.6.1.2).
   f. Unregulated Chemicals Monitoring Regulation (UCMR) monitoring is deficient. A round of monitoring for hexavalent chromium should have been completed by December 31, 2002. A round of monitoring for eight other unregulated chemicals should have been completed by December 31, 2003 (paragraph 2.6.1.8).
   g. The Stage 2 Disinfection Byproducts Plan due to DHS was not submitted by the October 1, 2006 deadline. The plan must be implemented by October 1, 2007 (paragraph 2.6.2.3).
   h. Wells 4, 5, 6, 7, 9, 11, 12, 14, 15, and 16 (total of 10) are inactive and must be rehabilitated or destroyed in accordance with County Health Department regulations (paragraph 3).
   i. Wells 4, 5, 6, 7, 9, 11, 12, 14, 15, and 16 (total of 10) are inactive and must be disconnected from the water system to avoid contamination of the water system (paragraph 3).
   j. The System Operations Plan needs to be updated to address 1) main repair, replacement and disinfection, 2) maintenance and testing of backflow prevention devices, 3) operation of the production, treatment and distribution facilities, 4) controls description, 5) general physical monitoring in distribution system, 6) emergency chlorination, 7) bacteriological monitoring procedure, and 8) an annual water audit program (paragraph 4.41).

3. City's Actions Since Acquisition. Since our acquisition of the system, the City and Operator have acted to improve water service. These actions include:
a. Obtained interim permission to operate letter from DHS, with Domestic Water Supply Permit to follow in the summer of 2007.
b. Flushed over 74,100 feet of water mains (the entire Water System).
c. Pressure tested the entire Water System.
d. Disposal of disused property and equipment (a.k.a, “junk”) from well sites.
e. Completed most urgent deferred repairs to wells, pump houses, expansion tanks, electrical systems, controls and other equipment.
f. Replaced over 500 damaged/broken water meter covers.
g. Rebuilt over 20 water service connections to residential meters in response to urgent customer complaints.
h. Installed one new fire hydrant and one replacement hydrant.
i. Disconnected six abandoned wells still connected to water system to prevent contamination.
j. Issued Request for Proposals for preparation of Water Master Plan to guide future reconstruction and expansion efforts.
k. Issued Request for Proposals to properly close 12 abandoned wells.
l. Initiated action to dispose of excess real property.
m. Completed overdue 2006 Annual Report to the Drinking Water Program.
o. Adopted comprehensive rules to govern the operation of the Water System.
p. Adopted ordinances to protect the water system from tampering, illegal connections and cross connection contamination.
r. Added explanation of “commodity charge” and “service” charge to back of water bills.
s. Improved access to Municipal Water System office.
t. Held two meetings with Water System customers.
u. Conducted a by-mail customer satisfaction survey (Attachment 4).
v. Established a Municipal Water System section within the City’s website (www.bellflower.org).

The Operator has furnished a number of exhibits that are available for Council’s and the public’s inspection, including before and after photographs, water samples, and damaged or broken equipment replaced during maintenance and repair activities.

4. Required Improvements. We estimate that a minimum of $10 million will be required over the next 20 years to rebuild and improve the system to current engineering and health standards. To ensure the delivery of clean, safe and reliable drinking water, the following work is deemed essential within the next five years:

a. Closure of 12 previously abandoned wells in accordance with Health Department regulations.
b. Inspection of expansion tanks at 3 operating wells. The resulting findings may require repairs or replacement of the tanks.
c. Installation of interconnections to adjacent water systems – City of Downey, Bellflower-Somerset Mutual Water Company, and Park Water Company.
d. Replacement of deteriorated/broken mains, fire hydrants, and water meters deemed high priority. Special emphasis on replacement of steel water mains.
e. Addition of new fire hydrants, and improvement to fire flow.
5. **Determination of Water Rates.** In accordance with the Operating Agreement between the City and Bellflower Somerset Mutual Water Company, the Operator is required to annually provide the City with a schedule of proposed water rates for the coming year that are designed to produce the minimum revenue needed to cover projected operating costs, including direct operating expenses (including the cost of water purchased), City administrative costs (primarily consultant engineering services), bond repayment, creation of a rate stabilization fund, and capital improvements. The Operator’s Annual Water Rate Determination for 2007-08 is attached (Attachment 5).

a. **Bond Component:** an amount equal to the aggregate of the principal of and interest on any Bonds, to be paid by the City during the ensuing Water Year as such principal and interest become due and payable during that year, except to the extent such principal and interest are payable from the proceeds of the Bonds or from any other source of legally available funds of the City which have been deposited with a bond trustee prior to the commencement of that Water Year, together with any additional amount required to comply with the Water Rate Covenant to provide adequate debt service coverage.

b. **Operations Component:** an amount sufficient to reimburse the Operator for actual cost of (a) the Facilities Operations, (b) the Office Building Operation and Maintenance Costs, (c) the Office Building Capital Costs, and (d) the Operator’s Preparation Costs, provided, however, that the Operator’s Preparation Costs shall be amortized, without interest, over a five (5) year payback period. The Operations Component shall be determined by adding (i) those costs which are anticipated to be directly incurred in the ensuing Water Year by the Operator in the Facilities Operations, including but not limited to energy costs associated with pumping water within the Water Service Area provided such costs are determined by separate meters, and such other operation and maintenance costs and expenses as the Operator may reasonably be able to segregate from generally incurred costs as being related solely to the Water Facilities; (ii) the estimated cost of any contractor or subcontractor anticipated to perform work on the Water Facilities and (iii) a prorated share of all costs and expenses indirectly incurred by the Operator in the Facilities Operations which cannot be reasonably allocated to the Facilities Operations under subdivision (i) above, including but not limited to, administrative support, workers compensation insurance, employee salaries and benefits, utilities, and taxes, calculated by applying the ratio of the number of metered connections within the Water Service Area to the total number of metered connections serviced by the Operator.

c. **City Administrative Cost Component:** an amount sufficient to reimburse the City for its actual costs in administering this Agreement and the Water System, including but not limited to any fees or charges imposed by the DHS in connection with the Domestic Water Supply Permit and the costs of insurance to be provided by the City.

d. **Capital Improvements Component:** an amount sufficient to fund scheduled capital improvements and reserves.
e. **Rate Stabilization Fund.** The City is required to establish a Rate Stabilization Fund of $100,000 to be used to keep water rates from rising due to unforeseen increases to the price of purchased water. Until the sum is accumulated, water rates will be increased by ten cents ($0.10) per one hundred (100) cubic feet, or portion thereof, of water delivered.

6. **Proposed Water Rates.** The proposed rate increase is expected to generate an additional $610,000 in revenue that will be used for bond repayment, rent stabilization fund, capital improvements, and engineering consultant services.

In creating the new rate structure, and to meet the fixed revenue requirements for bonding, the portion of revenue derived from the fixed component (i.e., service charge) has been increased from 36% to 55%, and the portion derived from the variable component (i.e., commodity charge) decreased from 64% to 45%.

a. **Commodity Charge for Potable and Reclaimed Water.** The commodity charge is the rate charged per 100 cubic feet of water actually used:

<table>
<thead>
<tr>
<th>Service</th>
<th>Per 100 Cubic Feet of Water Used</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
</tr>
<tr>
<td>Potable Water Metered Service</td>
<td>$1.720</td>
</tr>
<tr>
<td>Reclaimed Water Metered Service</td>
<td>$1.144</td>
</tr>
</tbody>
</table>

b. **Service Charge for Potable and Reclaimed Water.** The service charge is a charge which is applied to each metered service and is in addition to the commodity charge. The service charge covers utility costs, labor and the cost for equipment and materials, reading meters, preparing and mailing bills and notices, repair and maintenance to the water system, and other fixed costs of providing service.

The following service charges apply to both potable and reclaimed water metered service:

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Number of Potable Water Meters</th>
<th>Per Meter Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Current</td>
</tr>
<tr>
<td>For 5/8 x 3/4 inch meter</td>
<td>1,765</td>
<td>$13.22</td>
</tr>
<tr>
<td>For 3/4 inch meter</td>
<td>22</td>
<td>$19.84</td>
</tr>
<tr>
<td>For 1 inch meter</td>
<td>8</td>
<td>$33.07</td>
</tr>
<tr>
<td>For 1 ½ inch meter</td>
<td>3</td>
<td>$66.12</td>
</tr>
<tr>
<td>For 2 inch meter</td>
<td>14</td>
<td>$105.80</td>
</tr>
<tr>
<td>For 3 inch meter</td>
<td>1</td>
<td>$198.37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,813</strong></td>
<td></td>
</tr>
</tbody>
</table>

The Municipal Water Service also provides reclaimed water to three meters (two 2-inch meters and one ¾-inch meter, all serving the City of Bellflower).

c. **Commodity Charge and Service Charge for Fire Protection Systems.** For all water service furnished to privately owned fire protection systems:

1. **Commodity Charge** - Per inch diameter of service connection, per meter, per month:
Current - $5.58    Proposed - $14.56

2. **Service Charge** - Monthly minimum charge if domestic water service is not provided to the subject property by the City:

   Current - $45.00    Proposed - $45.00 (No Change)

The Municipal Water System currently provides water to one privately-owned fire protection system.

7. **Example – Average Residential Customer.** A survey of current water bills shows that the average residential customer pays about $80.00 bimonthly for potable water service. The following table uses this average to show the distribution of charges under current and proposed rates:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Charge</td>
<td>$26.44</td>
<td>$68.98</td>
</tr>
<tr>
<td>Commodity Charge</td>
<td>$53.56</td>
<td>$63.87</td>
</tr>
<tr>
<td>Total – Bimonthly</td>
<td>$80.00</td>
<td>$132.85</td>
</tr>
<tr>
<td>Total – Monthly</td>
<td>$40.00</td>
<td>$66.43</td>
</tr>
<tr>
<td>Net Increase</td>
<td></td>
<td>$26.43</td>
</tr>
<tr>
<td>Increase Per Day (@30 days)</td>
<td></td>
<td>$0.88</td>
</tr>
</tbody>
</table>

The actual water bill will vary from month-to-month based on amount of water actually used.

8. **Fees and Penalties.** Except as noted below, there are no changes to the previously adopted fees and penalties:

<table>
<thead>
<tr>
<th>Rule</th>
<th>Description</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>57.b</td>
<td>Scheduled water turn-on or turn off between 8:00 a.m. and 4:45 p.m., Monday through Friday (except holidays)</td>
<td>$25.00</td>
<td>No Change</td>
</tr>
<tr>
<td>57.b</td>
<td>Scheduled water turn-on or turn off outside normal hours</td>
<td>$45.00</td>
<td>$60.00</td>
</tr>
<tr>
<td>57.c</td>
<td>Unscheduled or emergency water turn-on or turn off between 8:00 a.m. and 4:45 p.m., Monday through Friday (except holidays)</td>
<td>$25.00</td>
<td>$35.00</td>
</tr>
<tr>
<td>57.c</td>
<td>Unscheduled or emergency water turn-on or turn off outside normal hours</td>
<td>$45.00</td>
<td>$65.00</td>
</tr>
</tbody>
</table>

9. **Other Rules.** In the processing of merging the rules contained in Resolution Nos. 06-66 and 07-4, some minor changes are proposed to clarify the language used, and eliminate duplication.

10. **Residential Ratepayer Assistance Programs - Low Income Assistance Program for Water Rate Increases.** Rule 67 of the proposed Resolution continues the City previously adopted ratepayer assistance programs, including a program for qualified low income residential customers who, whenever the City implements an increase in the water rate(s) charged, may be determined by the City to be exempt from payment of fifty percent (50%) of
the increase for a period not to exceed two years. The City’s proposed 2007-08 and 2008-09 Operating Budgets include $100,000 in each year for this purpose.

11. Notice to Record Owners and Customers. In accordance with Proposition 218, notice of this Public Hearing was sent to each of the record owners of the properties served by the Municipal Water System as shown on the latest equalized assessment roll (Attachment 6). A corrected notice containing additional information was also sent (Attachment 7). Although not required by law, a courtesy notice was also sent to each of the Water System’s customers via their April and May water bills (Attachment 8).

12. Majority Protest. Proposed increases are subject to “majority protest.” All record owners entitled to notice may provide a written protest at or before the public hearing. If a majority of such record owners submit written protests opposing the proposed increase, the rate will not be increased.

Record property owners, as defined under Proposition 218, may respond to the proposed fees in writing prior to or during the public hearing. Consistent with the provisions of Proposition 218, the aforementioned public notice was mailed to all record property owners of affected property to the addresses as they appear on the latest equalized assessment roll. If a property owner as defined under Proposition 218 objects to the proposed fees as described in the Notice, he/she may file a written protest with the City Clerk at or before the time set for the public hearing.

A valid protest must include:

a. The name of the record owner or owners of the property; and
b. Identification of the property by either assessor’s parcel number or street address; and
c. A statement of protest (“I/we protest” will suffice); and
d. The original signature of the protesting owner or owners (photocopies will not be accepted).

Please note that each property owner will be counted as a single vote, regardless of the number of owners. If there are two record owners, both must sign the written protest. If there are more than two owners, the protest must be signed by a majority of the owners. Multiple protests of a single property will be disallowed and the City Clerk will only accept one protest per property.

Attachments:
1. DRAFT Resolution No. 07-xx..............................................................................................8
2. DRAFT California Department of Health Services, Drinking Water Field Operations Branch Engineering Report dtd May 14, 2007 (w/o Appendices) ......................35
3. 2007 Annual Water Quality Report....................................................................................64
4. Water Customer Survey Results dtd March 28, 2007..........................................................69
5. Operator’s Annual Water Rate Determination for Fiscal Year 2007-08.............................70
6. Notice of Public Hearing Sent to Record Owners..............................................................74
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8. Notice of Public Hearing Sent to Customers.......................................................................77